BRITISH COLUMBIA SYSTEMS CORPORATION ANNUAL REPORT 1985-84

BCSC

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Province of
British Columbia

Ministry of
Finance

Parliament Buildings
Victoria, B.C.
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OFFICE OF THE MINISTER

June 15, 1984

The Honourable Robert Gordon Rogers,
Lieutenant-Governor of the Province of British Columbia

May it please your Honour:

The Annual Report of the British Columbia Systems Corporation for the fiscal year 1983/1984 is herewith respectfully submitted.

Honourable Hugh A. Curtis

Corporate Headquarters

4000 Seymour Place
Victoria, British Columbia
V8X 4S8

Vancouver office

601 West Broadway
Vancouver, British Columbia
V5Z 4C2

Auditors

Clarkson, Gordon
Chartered Accountants
Victoria, British Columbia

Officers

W.L. STAPLETON
President and Chief Executive Officer

N.E. GLASSEL
Vice-President, Information Services

J.K. KUSS
Vice-President, Systems Development

R.A. SKENE
Vice-President, Finance and Administration

C.D. SLADE
Vice-President, Distributed Systems

D.H. WILLIAMS
Vice-President, Client Services

Board of Directors

C.R.M. SMITH ••
President and Chief Operating Officer
McGavin Foods Limited
Vancouver, British Columbia
Chairman of the Board

L.I. BELL •
Deputy Minister of Finance
Province of British Columbia
Victoria, British Columbia

+ K.R. BROWES
President
Tripar Developments
Vancouver, British Columbia

HONOURABLE HUGH A. CURTIS ★
Minister of Finance
Province of British Columbia
Victoria, British Columbia

+ G.A. FIERHELLER
President and Chief Executive Officer
Premier Cablesystems Limited
Vancouver, British Columbia

B. SANGSTER •★
Consulting Partner
Deloitte, Haskins, and Sells
Vancouver, British Columbia

W.L. STAPLETON •★
President and Chief Executive Officer
British Columbia Systems Corporation
Victoria, British Columbia

Committees of the Board

• Executive Committee
• Audit Committee
★ Compensation Committee

+ Resigned from the Board of Directors effective January 1, 1984

Report from the Chairman

During the 1983/84 fiscal year, Mr. K.R. Browes and Mr. G.A. Fierheller resigned as members of the Corporation's Board of Directors. On behalf of the Board, I would like to acknowledge the valuable contributions they made during their tenure as Directors.

The major event for the British Columbia Systems Corporation during the 1983/84 fiscal year was clearly the Government's announced intention to sell the Corporation to the private sector. This announcement was made at approximately the mid-point of our fiscal year and had a pronounced impact on the Corporation's management and staff for the balance of the year.

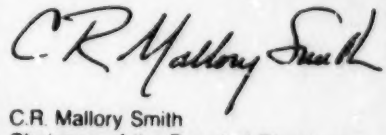
As Chairman of the Board of Directors, and as Chairman of the Sales Advisory Committee struck to oversee the sale of BCSC, I recognize that it was extremely difficult for the Corporation's management and staff to continue to work efficiently and effectively under the circumstance of the intended sale. Particularly difficult was the fact that, due to the formality of the sales process, it was not possible to communicate with all corporate employees as fully as might have been otherwise desirable.

I feel it is a tribute to the professionalism and dedication of the management and staff that BCSC continued to provide high quality services to its clients during this difficult period. I would like to express my sincere appreciation to all BCSC employees for the professional stance they maintained throughout the sales process. Without it, I recognize that the systems activities for Government could have been jeopardized.

The BCSC sales process was formally concluded in April 1984 with the Government's rejection of all bids received. At the same time, the Government announced plans for a streamlined BCSC and the following government objectives:

- to create job opportunities in the private sector for BCSC personnel;
- to ensure security of government data and continuity of service to provincial government ministries;
- to encourage private sector development in the data processing industry;
- and to stimulate post-secondary computer training in provincial educational institutions.

This new role presents many new opportunities for Corporation employees as participants in either the private sector or public sector. I am confident that if the same level of dedication is applied by them to the new BCSC as was applied during the "sale" process, Government and the taxpayer of British Columbia will be well served.



C.R. Mallory Smith
Chairman of the Board of Directors

Report from the President

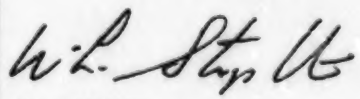
The past year has been one of considerable uncertainty for the future of BCSC and for the future of its management and staff. This uncertainty, coupled with the legitimate concerns of the Corporation's clients with regard to the continuation of critical systems services, slowed or terminated many of the Corporation's planned activities for fiscal 1983/84. However a number of significant objectives were achieved during the past year.

The concept of Information Systems Branches located on client premises and staffed by BCSC personnel was introduced. By year end all Ministries had implemented this concept which will result in an improved working relationship between BCSC and its clients.

Systems development activity, which was previously undertaken by BCSC staff on behalf of government, was transferred to the private sector. This resulted in approximately $10 million worth of contracts being awarded by the government to the private sector.

In achieving these results, the Corporation's headcount dropped from 591 to 522 during the fiscal period. Corporate revenues for the period were $75,586,000. It is worthy of note that $16,651,000 of revenue is attributable to the purchase of dedicated equipment by clients for use on client premises. This represents an increase in spending of $13,648,000 for this expenditure category. The Corporation will incur a loss of $1,417,000 for the 1983/84 fiscal period, largely as a result of two factors: the transfer of systems development activities to the private sector without a corresponding decrease in corporate headcount, and a general decline in government activities and expenditures as part of the Provincial restraint programme.

The announcement by Government in April 1984 of a new mandate for BCSC has resulted in Corporate activities now being firmly focused on creating a new BCSC to meet Government's objectives. It will take professionalism and commitment to effect changes of the magnitude necessary to realize Government's goals. The opportunity for a major improvement in Government's use of systems and systems technology will depend on the degree to which the new Government/BCSC/private sector model can be successfully implemented and operated. With the support of BCSC management and staff, the private sector, and particularly BCSC's clients, I am confident we can succeed beyond the expectations of Government.



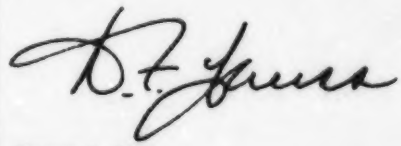
W.L. Stapleton
President and Chief Executive Officer

A Message from the Chairman of the User Review Committee

For much of the past fiscal year, the User Review Committee's attention was focused principally on various matters relating to the Government's announced intention to privatize the Systems Corporation. Pursuant to this announcement, which was made in August 1983, the Committee met with the President of BCSC to discuss issues which were of prime consideration to the users of BCSC's services. Following these and other deliberations, the Committee submitted a comprehensive report to the Corporation's Sales Advisory Committee in which comments were made on several items of major importance to users, including competition, continuity, security/confidentiality of data, ownership, information technology, efficiency in government information systems branches and the data network. Later the Committee addressed itself in greater depth to questions of security, particularly during the sales process period. Following these discussions, the Committee apprised each Deputy Minister of several pertinent security considerations and, to ensure that all Ministry chief executives were aware of the Committee's actions or responses with respect to the privatization initiative, each was provided with a copy of the submission to the Sales Advisory Committee.

During the year the User Review Committee also addressed itself to issues related to the implementation of the information systems branch concept, a joint report to the Treasury Board concerning the systems approval process was finalized; and a revised proposal was approved regarding membership on the Committee. In the latter instance, it was agreed that, in order to provide appropriate levels of continuity on the Committee and to provide input from a sufficiently large representation of BCSC users, future participation on the Committee would comprise 15 members of which the five largest users would be designated as permanent and, on an annual basis, five members drawn from other users would serve for two year periods.

Now that the new direction for BCSC has been affirmed by the Government, the Committee looks forward to a continued pro-active and positive relationship with the Corporation and wishes it every success in the future. I again wish to extend my thanks to both the members of the Committee for their contributions to the important issues addressed this past year and to the Corporation for its cooperation with us in the past year.



Dennis F. Truss
Chairman, User Review Committee

Auditors' Report

British Columbia Systems Corporation (Incorporated as a Crown Corporation under the System Act R.S.B.C. 1979)

The Honourable Hugh A. Curtis,
Minister of Finance,
Province of British Columbia

We have examined the balance sheet of the British Columbia Systems Corporation as at March 31, 1984 and the statements of income and (deficit) retained earnings, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1984 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Victoria, Canada.
May 31, 1984.

Clarkson Gordon

Chartered Accountants.

Balance Sheet March 31, 1984 (000's)

British Columbia Systems Corporation (Incorporated as a Crown Corporation under the System Act R.S.B.C. 1979)

Assets

	1984	1983
Current:		
Cash		$ 1,985
Accounts receivable	$26,939	15,632
Prepaid expenses	348	625
Total current assets	27,287	18,242
Funds held for facility:		
Cash		1,643
Short-term investments		7,559
Interest receivable		71
		9,273
Fixed, at cost:		
Land	6,917	6,847
Building	30,846	28,361
Computer and ancillary equipment (note 3)	17,479	19,123
Furniture and fixtures	2,234	2,308
Leasehold improvements	147	144
	57,423	56,783
Less accumulated depreciation and amortization (note 3)	8,003	4,198
Net fixed assets	49,420	52,585
Other:		
Deferred foreign exchange translation loss [note 5(b)]	416	70
	$77,123	$80,170

Approved by the Directors:

Director

Director

(see accompanying notes)

Liabilities

	1984	1983
Current:		
Bank overdraft	$ 2,579	
Note payable		$ 2,687
Accounts payable and accrued charges	17,053	9,293
Deferred revenue	957	1,507
Current portion of long-term debt (note 5):		
Lease capitalization	1,926	2,029
Other	579	579
Total current liabilities	23,094	16,095
Other:		
Facility accounts payable		6,507
Non-current deferred revenue		32
		6,539
Long-term debt (note 5):		
Lease capitalization	6,241	8,132
Other	39,205	39,384
Note payable	10,000	10,000
	55,446	57,516
(Deficit) retained earnings (note 6)	(1,417)	20
	$77,123	$80,170

Statement of Income and (Deficit) Retained Earnings

British Columbia Systems Corporation (Incorporated as a Crown Corporation under the System Act R S B C 1979)

For the Year Ended March 31, 1984
(000's)

	1984	1983
Revenue:		
Processing	$30,453	$31,142
System design and programming	14,995	19,050
Direct expenses recovered from clients	29,258	14,213
Interest and other income	880	579
Total revenue	75,586	64,984
Expenses:		
Employee	22,373	22,716
Equipment rental and maintenance	5,024	9,648
Services purchased for clients	32,378	21,313
Administrative and general	4,201	6,408
Depreciation and amortization (note 3)	4,863	3,636
Interest on long-term debt	8,399	1,243
Total expenses	77,238	64,964
Net income (loss) before extraordinary items	(1,652)	20
Extraordinary items (note 7)	235	
Net income (loss) for the year	(1,417)	20
Retained earnings, beginning of the year	20	2,676
Net income transferred to the Province of British Columbia pursuant to Section 8(5) of the System Act (note 6)	(20)	(2,676)
(Deficit) retained earnings, end of the year	$(1,417)	$ 20

(see accompanying notes)

Statement of Changes in Financial Position

British Columbia Systems Corporation (Incorporated as a Crown Corporation under the System Act R.S.B.C. 1979)

For the Year Ended March 31, 1984
(000's)

	1984	1983
Source of working capital:		
Operations—		
Net income (loss) for the year before extraordinary items	$(1,652)	$ 20
Add items not affecting working capital:		
Depreciation and amortization	4,863	3,636
Deferred foreign exchange translation loss	139	18
Total from operations	3,350	3,674
Extraordinary items (note 7)	235	
Drawdown of funds held for facility less related amounts payable	2,766	14,921
Proceeds on disposition of equipment	1,822	2,340
Additions to long-term debt (net of current portion)	36	29,715
Effect on working capital of discontinuance of capitalized leases		574
Total source of working capital	8,209	51,224
Application of working capital:		
Reduction of non-current deferred revenue	32	1,105
Additions to fixed assets	3,520	35,918
Long-term debt reductions	2,591	876
Net income, prior year, transferred to the general revenue of the Province of British Columbia (note 6)	20	
Total application of working capital	6,163	37,899
Increase in working capital	2,046	13,325
Working capital (deficiency), beginning of the year	2,147	(11,178)
Working capital, end of year	$4,193	$ 2,147

(see accompanying notes)

Notes to the Financial Statements March 31, 1984

British Columbia Systems Corporation (Incorporated as a Crown Corporation under the System Act R.S.B.C. 1979)

1. The Corporation

The British Columbia Systems Corporation is incorporated as a Crown Corporation of the Province of British Columbia under the System Act R.S.B.C. 1979.

The purpose of the Corporation is to establish and implement such policies as it considers appropriate for the consolidation and rationalization of data processing services provided for government entities. To achieve this purpose, the Corporation:

a) provides data processing and related services required for governmental purposes;

b) recommends and implements data processing standards, practices, policies and technical guidelines to facilitate a progressive improvement of information systems required by government entities; and,

c) subject to approval of the Lieutenant-Governor in Council, sets rates for the use of data processing products and services provided to its users.

In 1984 the Corporation received 89% of its revenues from Provincial Government Ministries with the balance from other Government entities.

2. Significant accounting policies

As prescribed by Section 9(6) of the System Act, the financial statements of the Corporation are prepared in accordance with generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

a) Fixed assets:

The Corporation leases most of its computer equipment. Certain of these leases, however, transfer the benefits and risks incident to ownership to the Corporation. In such cases, as more fully described in notes 3 and 5, the leases have been capitalized.

The costs of fixed assets are depreciated and amortized over their estimated useful lives as follows:

Building	—over forty years, on a straight-line basis
Building plant and equipment	—over twenty years, on a straight-line basis
Computer mainframes	—over the terms of the leases (4 to 5 years) on an annuity basis
Other computer and ancillary equipment	—over periods ranging up to five years, on a straight-line basis
Furniture and fixtures	—over ten years, on a straight-line basis
Leasehold improvements	—over terms of leases, on a straight-line basis

b) Revenue recognition:

Revenue from resource billing is recognized as the services are performed.

Revenue from fixed price contracts is recognized on the basis of percentage complete for systems development projects and machine processing.

c) Expense recognition:

All purchases, including services purchased for and billed to clients, are expensed in the accounts as incurred with the exception of fixed assets and prepaids.

Interest on indebtedness is expensed in the period to which it relates.

d) Development costs:

Development costs (including systems design and programming) are expensed as incurred.

e) Income taxes:

The Corporation is exempt from Federal and Provincial income taxes.

f) Sinking funds:

Payments made to sinking funds with respect to retirement provisions of the sinking fund debentures will be carried until such time as the debentures are redeemed. Interest earned on the sinking funds is recorded as income.

g) Foreign currency translation:

Debt due in foreign currency is translated to Canadian dollars at the exchange rate prevailing at year end. Any gain or loss on translation is deferred and amortized over the remaining term of the debt, including the current year.

3. Capitalization of leases

Included in fixed assets is computer equipment recorded at a cost of $10,056,000 (1983 - $10,056,000) arising from the capitalization of certain leases. The related accumulated amortization amounts to $1,933,000 (1983 - $177,000).

4. Borrowing authority

Pursuant to section 8(6) of the System Act, the Corporation may be advanced or borrow up to $65,000,000. In computing that amount the aggregate net rentals payable by the Corporation under leases of personal property for a term exceeding one year shall be excluded.

5. Long-term debt

a) Lease capitalization:

The minimum annual contractual obligations with respect to capitalized leases are as follows:

1985	$ 2,762,000
1986	2,762,000
1987	2,752,000
1988	1,734,000
	10,010,000
Less imputed annual interest at an average rate of 12% per annum	1,843,000
Capitalized lease obligations	8,167,000
Less current portion	1,926,000
Long-term portion	$6,241,000

b) Other:

	Interest Rate	Maturity Date	Amount
Sinking fund debentures:			
Canada Pension Plan —Series 1	15.69%	2002	$13,309,000
Canada Pension Plan —Series 2	16.10%	2002	11,923,000
Private placement debt for U.S. $11,400,000 repayable in U.S. dollars (see below)	16.88%	1986	14,552,000
			39,784,000
Less current portion			579,000
Long-term portion			$39,205,000

Annual maturities and mandatory sinking fund requirements for each of the next five years and thereafter are as follows:

	Sinking fund payments	U.S. debt	Total
1985	$ 579,000		$ 579,000
1986	579,000	$14,552,000	15,131,000
1987	579,000		579,000
1988	579,000		579,000
1989	579,000		579,000
Thereafter	22,337,000		22,337,000
	$25,232,000	$14,552,000	$39,784,000

The foreign exchange loss on translation of the U.S. dollar debt to Canadian dollars amounted to $555,000 (1983 - $88,000) of which $139,000 (1983 - $18,000) has been amortized in the current year.

c) Note payable:

The Corporation has the following financial arrangements with Victoria and Grey Trust Company:

Note	Interest rate	Maturity date	Amount
BCSC-1	0.75% less than average bank prime; calculated quarterly	1987	$10,000,000

The Province of British Columbia has guaranteed the payment of principal and interest on all long-term debt issued by the Corporation.

6. Net income

Pursuant to Section 8(5) of the System Act, the Lieutenant-Governor in Council may, each fiscal year, on the recommendation of the Minister of Finance, direct the transfer to the government of all or part of the net income for the current year or for previous years to the extent not previously so transferred.

7. Extraordinary items

	1984	1983
Refund from the Ministry of Provincial Secretary and Government Services for excess contributions in previous years to the Public Service Long Term Disability Plan	$1,070,000	
Provision for estimated costs associated with the proposed reorganization of the Corporation	(835,000)	
	$ 235,000	Nil

8. Commitments

The Corporation leases some of its premises and computer equipment for periods of up to five years.

The minimum annual contractual obligations of non-cancellable leases are as follows (excluding amounts relating to capitalized leases):

1985	-	$7,208,000
1986	-	$4,474,000
1987	-	$1,688,000
1988	-	$782,000
1989	-	$350,000

9. Pension and superannuation plans

Until the Corporation establishes a pension or superannuation plan, the Public Service Superannuation Act applies to the Corporation and its officers and employees. The Corporation is obliged to pay into the Public Service Superannuation Fund amounts equal to employees' contributions required under the Public Service Superannuation Act.

10. Comparative figures

Certain comparative figures have been reclassified to conform to the method of presentation adopted in 1984.

11. Subsequent event

On August 31, 1983, the Government of British Columbia announced plans to offer all or part of the Corporation for sale to the private sector. Subsequent to the year end, the Government announced its decision to reject all bids received for the Corporation and its plans to streamline the Corporation and to privatize part of the Corporation's services.

POOR

QUALITY

ORIGINAL